Revenue Committee

Meeting Summary

May 12, 1999

APPROVED (6/15/99)

Committee members present: Skip Rowley, Chair, Bob Helsell, Vice-Chair, Roger Dormaier, Councilmember Dave Earling, Jim Fitzgerald, Governor Booth Gardner, Representative Ed Murray, Mike Roberts, Senator George Sellar, Commissioner Judy Wilson

Committee members not present: Neil Peterson, Larry Pursley

Chairman Skip Rowley called the meeting to order at 8:35 am. A motion to adopt the April 20 meeting summary was made and seconded. A correction was offered to the second to the last paragraph on the fourth page in which the sentence was clarified to read: *His reply was no as there is more highway work than the limitation set by the 18th amendment.* The minutes were approved as corrected.

The Chair asked whether any members of the public wished to address the committee.

- Bob Smith, Mayor Pro Tem of the City of Sequim, introduced himself and passed out a number of letters to the Blue Ribbon Commission stating the views of Olympic Peninsula communities that the pending bridge repairs to the Hood Canal Bridge be treated as a maintenance and preservation project and do not warrant the imposition of tolls.
- Doug Rauh, citizen of Bainbridge Island, asked the committee to look at revenues generated by the new Mark II ferries as the larger vessels are raising the cost of operation but not increasing revenues. He also expressed concern about the investment of funds in the Eagle Harbor facility which is at high risk due to its location on a fault line. Additionally, Mr. Rauh suggested that the Tacoma Narrows Bridge be tolled now as a public facility.

Chairman Rowley reported that an employee of his was the Mayor of Port Townsend and had requested a meeting to discuss the Hood Canal Bridge. He would let committee members know when the meeting was scheduled. It was asked whether the Revenue Committee would be making any kind of decision on the matter of the bridge and the chair replied he did not believe it would.

Anne Fennessy of Cocker Fennessy, communication consultant to the Commission, addressed the committee and requested members provide the names of organizations, stakeholders, opinion leaders and members of the media for inclusion in the communication data base.

Discussion of Afternoon Commission Meeting

Chair's Report. The chairman told committee members that he intended to make a report to the full commission in the afternoon. He said he would recap the presentations and briefings the committee had received in the last 4 months. Then he would offer the following preliminary themes that the committee had discussed a number of times:

- The transportation funding system is complicated and difficult for the layperson to understand.
- The funding system has been devised with the best of intentions a piece at a time over many decades to meet specific purposes, problems, political realities and compromises. It may be time to develop a comprehensive new rationale as a system.
- Once in place, funding mechanisms are very hard to change and thus do not tend to respond well to changing needs.
- The public feels it already pays a lot, and yet all parts of the system feel they suffer from insufficient funding levels.
- As a layperson, it is very hard to tell whether the allocation of funds to jurisdictions and to functions appropriately meets the needs of each.
- For these reasons, we are not surprised that the public does not support new revenues. Until the funding system can be made more comprehensible as a whole to the public, it will be most difficult to build public support or persuade the legislature that it should pass new revenue measures.

He went on to add that the next step for the Revenue Committee will be to look more deeply into these issues and to discuss options for addressing them. He asked members whether there was anything else they felt he should report. It was asked whether he would be suggesting any specific revenue solutions. Chairman Rowley stated that he would make the point that all options are still on the table and that it was likely that any revenue recommendations would be following the release of Administration and Investment Committee recommendations. There would be specific revenue source recommendations in the final report.

Case Studies. Two case studies will be presented in the afternoon and committee members Roger Dormaier and Judy Wilson will represent the committee on discussion panels. Chairman Rowley asked whether the panelists wished to comment on their remarks. Roger said he intended to express his opinion that it was vital in the Spokane area to keep freight moving.

Presentation on Market Mechanisms

Kathy Elias, committee staff person, provided an introductory briefing on market mechanisms in transportation funding. She indicated that additional future sessions could be scheduled to delve more deeply into specific topics. She opened by defining a market as a place where buyers and sellers engage in the exchange of information and in decisions about whether to buy or sell to each other. The primary factors people consider are price and the availability of viable alternatives or substitutes.

As used in transportation, market mechanisms mean the use of price signals to regulate supply and demand of travel or parking. The most common price signals in transportation are the price of gas, the price of parking, or the price of a bus or train ticket. A price signal is considered effective when it directly affects a decision to use a particular mode of travel. For example, we know that when the price of gas goes up, people tend to drive less. Some of the substitutes people may use are:

- switching to another mode, for example, transit or bicycle;
- selecting a different route or destination, for example, going to a shopping mall with free parking rather than to the department store downtown;
- or deciding not to travel at all, for example, by working at home.

There are several main reasons we consider market-based pricing schemes in transportation: The first is to send powerful price signals to change people's travel behavior. Another important reason for considering pricing schemes is to generate new revenues. A third reason to consider transportation pricing is that by linking a price directly to consumption of a good, the public views it as a "user fee" or direct payment for value received. Kathy went on to discuss four main types of market mechanisms in transportation: fuel fees, congestion fees, parking fees and mileage charges.

Fuel Fees. Gas taxes are viewed as classic user fees. The user pays a small fee for each gallon of gas and in exchange gets to use the roads. A raise of 50 cents a gallon in the gas tax, for example, would raise lots of new money so would meet one of the purposes of using pricing tools. People might drive somewhat less, but would probably not really reduce congestion. A 1994 study calculated that in the Puget Sound region a 40 cent gas tax increase would reduce afternoon peak period trips by 1.2%. But it would generate $424 million. From the point of view of the Revenue Committee, this mechanism offers strong revenue benefits.

During discussion, a committee member clarified that it would not likely be the committee's position to recommend raising the gas tax by 50 cents per gallon. Another committee member brought up the concept of elasticity and remarked that eventually a high enough gas tax increase would reduce people's driving habits. But it was unclear at what point the "break" might happen where the gas tax becomes high enough that people change their driving habits.

It was asked whether the example of a 1.2% decrease in travel cited in the study factored in the $400+ million in new revenue being invested in new capacity. It was also noted that a 1% decrease in driving could be a large number (of fewer vehicle miles traveled) and would be good to know. Staff offered to follow up with additional research. A committee member commented that the Legislature had indexed the gas tax to price in the late 1970s, but when the price dropped, the indexing was removed. It was pointed out that raising the gas tax accomplished three objectives: 1) preserving fuel supplies, 2) reducing congestion, and 3) creating the ability to build more.

Congestion Fees. Congestion fees are charges imposed on very congested roads or in congested regions to get people to change their behavior. A congestion fee can be imposed on a specific route or in a larger area. A **route-specific congestion fee (or toll)** is a fee to travel over a bridge or over a

particular stretch of road. Tolls are widely used to pay for specific facilities. Because they create an ongoing revenue stream, they can be used to back revenue bonds.
Region-wide congestion fees are imposed in an entire region and would be most applicable where it was important to avoid having people simply switch routes. A region-wide congestion fee would be one that was applied to all roads within some defined set of regional boundaries. The same study mentioned above used an average of 7 cents per mile in peak periods and calculated that in the Puget Sound it would generate about $436 million per year at 1994 traffic levels.

A member remarked that if the goal were to reduce congestion through market mechanisms, the state would need adequately funded alternatives. Another member asked whether areas not experiencing congestion would pay congestion fees if they were recommended. The answer was no, such fees only make sense in a congested area. It was also asked whether people from outside the congested areas would pay the congestion fee if they traveled into the congestion area, and the answer was yes.

Parking Fees. If people have to pay to park their car when they get to a place, they are less likely to drive there. Two kinds of parking fees were discussed:

- **Site-Specific Parking Fees.** Seattle Center event parking is a good example. Private operators use price signals for this kind of high demand parking situation.
- **Daily Charge on All SOV Parkers**. This would be a flat fee charged all employed people who drive alone to work, regardless of whether they park for free or already pay to park. For example, a daily parking charge of $1.70 would be needed to generate the same $438 million that the congestion fee would.

Other parking policies include the commercial parking tax authorized as a local option in Washington but only used in a few places with a "captive" parking audience. A downside of this kind of mechanism is that it can have the unintended consequence of causing people to shift their discretionary travel to locations with free parking, thus hurting businesses in urban areas. A committee member asked whether there were any studies on whether parking fees in urban areas hurt the retail industry. Staff knew of no study.

During the discussion of a daily SOV parking charge idea, a member asked whether that amounted to an employee head tax. The answer was yes. Another member asked who would administer such a charge, and the answer was that had not been determined.

Mileage Fees. This is a charge imposed on every auto owner and is a per mile fee based on the number of miles (or VMT, vehicle miles traveled) the car is driven.

- **VMT Charge**. The 1994 study found that in the Puget Sound it would be possible to generate about $430 million a year by charging 2 cents a mile. From the auto owner's perspective, that would be $150 a year if you drive 6000 miles or $400 if you drive 20,000 miles a year. Or between $12 and $33 a month to use the roads. Especially people who have a long commute would see an incentive to switch to a 4-day work week or to telecommute or, long term, to consider changing either their place of work or their place of residence.

- **MVET and VMT Blended Charge**. Currently people pay an annual MVET charge based on the value of their cars. They pay it once a year and dislike it because it is a big check. I-695 is currently circulating, which would virtually abolish the MVET, threatening to take $1.5 billion a year away from transportation. A new blended charge could be based partly on the car's value and partly on how much the car is driven. That would be linking price to people's travel behavior, thus sending more appropriate price signals than the MVET does. It would also be shifting to a user fee based system and away from the property tax based system that is unrelated to the use of transportation system capacity.

Joint Meeting with Administration Committee

The meeting reconvened after the break as a joint meeting with the Administration Committee to discuss issues that overlap both committees.

Presentation on Public-Private Initiatives

Jerry Ellis, Director of the WSDOT Transportation Economic Partners Program, described the history of public-private initiatives (PPI) in the state of Washington. In 1993, the Washington State Legislature passed legislation authorizing public-private initiatives to finance transportation improvements. The legislation was intended to provide more opportunities for the state to develop transportation facilities using private sector financing and expertise and to supplement state transportation revenues for needed projects. The PPI framework was to provide cost-effective and needed facilities that did not have funding from traditional tax sources.

Jerry described several benefits of public private partnerships. With the design/build opportunity come cost and schedule savings and efficiencies. The project risks of design, construction, operation and maintenance shift to the private sector partner. Financing is provided by the private partner, so the state has no increased debt. Development costs are shared; the public sector contributes to environmental studies and right of way acquisitions.

Soon after the 1993 authorizing legislation, 14 projects were presented by major national and international firms, projects believed to meet a need, bring demand, and be economically viable for private investment. Among the proposals approved by the Washington State Transportation Commission was the proposal to add capacity to SR-16 over the Tacoma Narrows using toll facilities. Several of the proposed projects stirred up significant local opposition and, in 1995, the Legislature changed the law to require an advisory election on any public-private toll facility that encounters community opposition. In 1996 the Legislature further required that the advisory election be on the preferred alternative resulting from an environmental review under state and federal laws.

Following an advisory election that favored the Tacoma Narrows proposal in fall of 1998, a contract is now being negotiated with United Infrastructure Company. The public contribution to the partnership will be $50 million from the state transportation fund to "buy down" the tolled project cost; $10 million in funding of environmental reports and public involvement processes; deferral of state sales tax; and business occupation and public utility tax exemptions. The private contribution will be $300 million in private debt financing, $10 million in pre-financing costs, the design build contract; and management and operations agreements.

Jerry considers the Tacoma Narrows PPI a strong project, in that it meets all the financial drivers, with a large demand and value in the service provided, and is a project that was not within a 20-year planning horizon because of its size and cost. But the state contribution is higher than when the project was selected in 1994. It is not realistic to expect the private sector to undertake EIS and development costs in the face of a required election, the results of which are uncertain. The ballot requirement changes the dynamics of the contractual and financial partnership substantially. Our state reputation has been hurt by changing the rules of the game in midstream. To entice private involvement for future projects will require that state funds be a part of project development.

Committee discussion centered on why several projects initially in the PPI pipeline have been defeated by public opposition. The 520 project faced opposition in large part because there was mistrust by local neighborhoods. For the SR-18 project, the fact that it introduced a toll on an existing road made it less palatable. Even if additional lanes or capacity are being added, tolls on existing roads will be difficult.

Questions were asked about the public opposition to private sector involvement. Is the opposition due to the concern that the private partner will make a profit? Yet we already use private contractors on public works projects. For all the mistrust of government, when a toll is imposed by government there seems to be a higher level of trust. It may be that as awareness of the need for such projects increases, and with the publicity over the past two or three years, there may be more readiness to accept toll road proposals.

Discussion of Alternative Governance and Funding Models

Patricia Boies, Administration Committee staff, and Kathy Elias, Revenue Committee staff, presented four models of governance structures from other jurisdictions: San Diego, Vancouver, B.C., Michigan, and New Zealand, and described what they would look like if implemented in Washington.

San Diego Model. The San Diego Association of Governments (SANDAG) is an example of greater alignment of funding authority with planning, enhancing the ability to implement projects. SANDAG serves as both the Metropolitan Planning Organization for federal purposes and the regional planning agency under state law (similar to the Puget Sound Regional Council). SANDAG receives not only federal funds, however, but also gas tax revenues and state and local sales tax revenues. The local sales tax revenue derives from a county vote in 1987 and is credited by SANDAG for its improved ability to implement projects in its regional transportation plan. PSRC, in contrast, allocates only federal funds. Such a model in Puget Sound would channel more of the state gas tax through the PSRC, as well as any new local option tax, and could result in greater implementation of projects in the regional transportation plan.

A committee member remarked that while the model would not be that difficult to implement, it would be a major shift for the Legislature because of the increased local authority. A member asked if the new money would be local option money. The answer was that it would include local option money but was primarily a reallocation of existing funding. It was clarified that the local funding would be subject to the 18th amendment restrictions if the source were the gas tax.

A member stated that the model would be advantageous in that it would increase local control of funding. Another member asked how funding would be distributed, per population or a percentage of the gas tax received from that county or region? It was suggested that a workable formula could be put together. A member asked local committee representatives if they would support money sent to a regional body. One answer given was positive if a regional list could be agreed to.

Vancouver, BC Model. The Vancouver model goes further in that a new regional authority takes over ownership of public transit and also oversees and funds major roads in the Greater Vancouver region, which are owned and operated by local governments. By consolidating responsibility for transit and roads into one authority that receives contributions from the Province, existing local sources, and possible new sources, the Vancouver model combines planning, funding, and programming in a single entity. In Puget Sound, this would mean a single new regional entity would have jurisdiction over all transit agencies (Sound Transit, Metro, Community Transit, etc.) and would oversee and fund regional arterials.

In both San Diego and Vancouver, the impetus was to provide more regional control and coordination. Proposals in Michigan and New Zealand were prompted more by the severe backlog in road repair.

Michigan Model. The Michigan model, based on the Governor's 1997 proposal, provides for state takeover of county and city roads of economic significance, which would be transferred to the state. A gas tax increase, as well as cost savings and other efficiency gains, would fund the repair, construction and operation of the roads, with no net loss to local government. In Washington, this would mean that arterials of regional significance would transfer to WSDOT, with additional state funding.

A member asked what the opposition to the Michigan model had been. The answer was the potential loss of control or ownership. Another member asked if the Michigan model addressed King County Executive Sims' idea of a regional arterial network system. A member said that no, it did not achieve that level of integration.

New Zealand Model. New Zealand, which has struggled with public debt and put constraints on public borrowing, already requires its DOT and the 74 local governments to contract out all construction, operation and maintenance. A new proposal would privatize transportation even farther and fund it entirely with gas taxes and other user fees. The proposal would create four to six publicly owned road utilities from the 74 local governments, which would own shares in the utilities and appoint their directors. The operating assets, including all road improvements, would transfer from the governments to the new road utilities. Ownership would remain with the local governments. Property taxes would no longer go to fund roads. The gas tax would be increased and other user fees authorized, including tolls. The impact on most households and business would be neutral, because any increase in fees would be offset by removal of the portion of property tax that goes to fund transportation. Were such a model to be implemented here, road assets would be transferred to publicly owned companies whose revenue would come from gas taxes and other user fees. County road taxes would be eliminated and city property taxes reduced.

A member asked whether the New Zealand model transferred the power of eminent domain. Staff were unsure about the answer, but license fees were transferred to the road utilities created. A member remarked that a structural rearrangement without money transferred, wouldn't do much good. Another member suggested the idea was to spend the money in the area in which it was raised.

A question was posed whether members felt Washington's transportation system was in enough of a crisis to pursue the somewhat radical alternative models. One member responded yes. Other members said the San Diego model did not appear radical, nor did the Vancouver model. The comment was offered that the transportation system was a statewide system and breaking it down regionally would disrupt its effectiveness as a statewide system. A member noted that the current system has a piecemeal approach at the local level.

There was discussion about the benefits of regional authorities and working together at the local level. A member remarked that communication seemed to be a problem in some regions. It was noted that in other regions local governments work together very well under a model of volunteerism. A number of members mentioned that without new funding, reorganizing along regional grounds would not help much.

Two members of the audience addressed the meeting. Bob Smith, the Mayor Pro Tem of Sequim said that local jurisdictions often feel that decision-makers do not use the work and priorities local jurisdictions have agreed to. Doug Rauh from Bainbridge Island said taxing the local populace for projects in their areas was the way to go.

There being no further business, the meeting adjourned at 11:55 am.